

Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 EURE-00 INRE-00 SSO-00 NSCE-00 USIE-00

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STR-08 OMB-01 CEA-02 CIAE-00 COME-00 FRB-02 INR-10

NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 L-03 H-02 PA-03

PRS-01 RSR-01 /144 W

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O R 291840 Z JUN 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 6041

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E. O. 11652: N/ A

TAGS; EFIN, GW

SUBJECT; SCHMIDT/ KLASSEN PRESS CONFERENCE ON DM REVALUA-
TION

REF: BONN 9360

1. SUMMARY. DURING THE PRESS CONFERENCE HELD TO ANNOUNCE
THE DM REVALUATION (REFTEL), FRG FINANCE MINISTER SCHMIDT
SAID THAT RECENT DEVELOPMENTS ON THE FOREIGN EXCHANGE
MARKETS FORCED THE GOVERNMENT TO REVALUE THE DM LEST ITS
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STABILITY MEASURES BE SERIOUSLY ENDANGERED. THE DECISION TO REVALUE WAS TAKEN AFTER CONSULTATIONS WITH THE FRG'S TRADING PARTNERS, AND A UNILATERAL FLOAT WAS DEEMED OUT OF THE QUESTION SINCE THIS WOULD HAVE DESTROYED THE QUEST FOR EUROPEAN ECONOMIC UNITY. SCHMIDT EXPLAINED THAT THE PARTNERS WOULD HAVE LIKE A REVALUATION OF THIS MAGNITUDE WOULD FORCE THE OTHER JOINT FLOAT COUNTRIES TO INTERVENE IN DM. SCHMIDT SEES THE MECHANICS OF THE JOINT FLOAT AS AN "EXAMPLE" OF HOW THE NEW MONETARY SYSTEM SHOULD WORK. NEITHER SCHMIDT NOR KLASSEN WOULD VENTURE ANY PROGNOSIS AS TO THE FUTURE COURSE OF THE DOLLAR. END SUMMARY.

2. IN A PRESS CONFERENCE HELD BY FRG FINANCE MINISTER SCHMIDT AND BUNDESBANK PRESIDENT KLASSEN TO ANNOUNCE THE DM 5.5 PERCENT REVALUATION (REFTTEL), SCHMIDT SAID THAT THE EXCHANGE MARKET DEVELOPMENTS OF RECENT DAYS HAD FORCED THE GOVERNMENT'S HAND. INTERVENTION REACHED DM 2.2 BILLION ON JUNE 28 AFTER INTERVENTIONS OF DM 700 MILLION AND DM 400 MILLION, RESPECTIVELY, ON JUNE 27 AND JUNE 26. LAST WEEK AND ON MONDAY OF THIS WEEK, INTERVENTION LEVELS WERE AVERAGING DM 150 - 200 MILLION PER DAY. IN SUM, THE OTHER CURRENCIES OF THE JOINT FLOAT HAD TO BE SUPPORTED BY MORE THAN DM 4 BILLION IN THE PAST TWELVE DAYS.

3. SUCH DEVELOPMENTS, SCHMIDT SAID, SERIOUSLY ENDANGERED THE ENTIRE STABILITY EFFORTS OF THE FRG GOVERNMENT. THE DECISION TO REVALUE WAS NOT "SO MUCH BECAUSE WE COULD NOT PERMIT THE VOLUME OF MONEY AND CREDIT TO EXPLODE, THEREBY SERIOUSLY ENDANGERING OUR ENTIRE STABILITY MEASURES."

4. SCHMIDT EXPLAINED THAT THE FRG INTERNAL STABILITY POLICY WAS OF TOP PRIORITY, BUT THAT ON THE OTHER HAND PRIORITY WAS ALSO GIVEN TO RETAINING THE JOINT FLOAT. THE FRG DID NOT FOLLOW THE ADVICE OF THOSE WHO ADVOCATED A UNILATERAL DM FLOAT SINCE "THIS WOULD HAVE CREATED THE VIEW OF OUR PARTNERS THAT WE DO NOT FOLLOW THE GOAL OF ECONOMIC AND CURRENCY UNION WITH THE SAME INTENT THEY DID." SCHMIDT LATER INTONED THAT THE FRG "WOULD NOT UNDER LIMITED OFFICIAL USE

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ANY CIRCUMSTANCES" GIVE UP ITS QUEST FOR A EUROPEAN ECONOMIC UNITY UNDER PRESSURE OF DEVELOPMENTS ON THE FOREIGN EXCHANGE MARKETS. KLASSEN ALSO ADDED THAT "IF WE WERE TO HAVE FLOATED BY OURSELVES THAT WOULD HAVE MEANT THAT OUR CURRENCY UNION WOULD HAVE BEEN 'KAPUT' FOR AN UNFORSEEABLE PERIOD OF TIME-- THIS WAS ALSO THE UNANIMOUS VIEW OF OUR PARTNERS."

5. KLASSEN POINTED OUT THAT THE DECISION TO REVALUE WAS JOINTLY FORMULATED BY HIMSELF AND SCHMIDT AND PRESENTED TO THE FRG FINANCE CABINET LAST NIGHT FOR APPROVAL. KLASSEN STRESSED THAT THE FRG HAD TO DO SOMETHING GIVEN THE SITUATION AND THAT THE MEASURES DECIDED UPON WERE THE ONLY WAY OUT. IF THE FRG HAD DECIDED INSTEAD TO HAVE FOREGONE PART OF ITS STABILITY PACKAGE, THIS WOULD HAVE LED THE WHOLE SNAKE IN A MUCH MORE RAPID COURSE TOWARD INFLATION.

6. SCHMIDT EXPLAINED THAT THE DECISION AS TO HOW MUCH TO REVALUE WAS TAKEN AFTER CONSULTATIONS WITH THE EEC

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PARTNERS. KLASSEN SAID THAT IT BECAME CLEAR IN LUXEMBOURG THAT THE FRG'S PARTNERS, LIKE THE FRG, WERE OF THE OPINION THAT THE EXCHANGE RATES WERE ABOUT RIGHT, BUT IT WAS AGREED THAT THE EXPERTS HAVE NOT BEEN ABLE TO CONVINCE THE PUBLIC. KLASSEN SAID THAT HE GOT THE IMPRESSION FROM 2 AM TELEPHONE CONVERSATIONS THIS MORNING WITH HIS COLLEAGUES IN THE US THAT " WE MAY HAVE REACHED A TURNING POINT." " THERE ONE IS SOMEWHAT MORE OPTIMISTIC, MORE OPZB###

KLASSEN CONTINUED, " THEY REALLY BELIEVE THE LOWER POINT HAS BEEN REACHED." " THE AMERICAN DEVELOPMENTS IS CONSIDERABLY INFLUENCED BY INTERNAL DEVELOPMENTS-- THE BUSINESS WORLD THERE IS NOW OF A STRONG OPINION THAT LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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ONE SHOULD BUY DOLLARS AND INVEST IN US STOCKS. THIS WAY ONE COULD MAKE A LOT OF MONEY WITHIN A YEAR-- THIS OPINION DOES EXIST."

7. THE DM WAS REVALUED UPWARDS BY 5.5 PERCENT, EVEN THOUGH, AS SCHMIDT SAID, OUR PARTNERS WOULD HAVE WANTED A REVALUATION BY " NOTABLY LESS." " IT COULD NOW WELL HAPPEN THAT OUR PARTNERS ARE FORCED" TO SUPPORT THE DM FOR A WHILE AS HAS OCCASIONALLY HAPPENED BEFORE. THE FRG WOULD BE HAPPY TO GIVE BACK THE DM 4 BILLION IT HAD TO TAKE IN OVER THE PAST TWO WEEKS, SCHMIDT REMARKED. IN RESPONSE TO QUESTIONS, SCHMIDT STRENGTHENED THIS POSITION: " WE MUST ALSO SEE TO IT THAT OUR PARTNERS ARE BEING FORCED INTO INTERVENING IN DM, MOST LIKELY IN THE NEXT FEW DAYS." " A MORE EXOTIC RATE OF REVALUATION WOULD HAVE MADE THE PRESSURE ON OUR PARTNERS TOO GREAT." SCHMIDT DID NOT RULE OUT THE POSSIBILITY OF A FUTURE CHANGE OF PARITIES IN THE OPPOSITE DIRECTION.

8. IN RESPONSE TO A QUESTION HOW ONE CAN RECONCILE THE NOTION OF A CHANGE IN THE DM CENTRAL RATE WITH THE NOTION OF A JOINT FLOAT, SCHMIDT REPLIED, " WE HAVE FIXED PARITIES IN THE SNAKE AND ADJUST THEM, THAT IS EXACTLY WHAT WE HOPE FROM THE ENTIRE INTERNATIONAL MONETARY SYSTEM WHEN FINALLY THE FOLLAR DOLLAR HAS BECOME STABLE AND ONE CAN SOMEHOW AND SOMEWHERE FIX IT AT A CENTRAL RATE OR A AT A PARITY-- THAT WE WANT ALL OVER THE WORLD FIXED EXCHANGE RATES BUT RELATIVELY SIMPLE IN ADJUSTMENTS; NOT GIANT ADJUSTMENT STEPS, BUT SMALLER STEPS, SO THAT THINGS DON'T GET OUT OF BALANCE. THUS, THE SNAKE SETS FOR ITS WORLD TRADING PARTNERS AAN EXAMPLE OF HOW THE NEW MONETARY SYSTEM SHOULD WORK."

9. SCHMIDT BELIEVES THE REVALUATION OF THE DM WILL LEAD

TO A TENDENCY TO REDUCE THE " UNFORTUNATELY VERY HIGH
TRADE SURPLU" WHICH IS TO BE EXPECTED FOR L973, AND
WILL TEND TO HAVE A FAVORABLE EFFECT ON FRG IMPORT
PRICES. SCHMIDT WARNED, HOWEVER, NOT TO EXPECT ANY
" DRASTIC" EFFECT. HE EXPECTS THAT THE WORLD AND GERMAN
BUSINESS AND LABOR CIRCLES WILL CONSIDER THE DECISION TO
REVALUE AS A " MASSIVE SUPPORT FOR STABILITY ORIENTED
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POLICIES."

10. SCHMIDT EXPECTS THAT THERE WILL ALSO BE CRITICISM TO
THE EFFECT THAT THE FRG IS OVERDOING ITS STABILITY
ORIENTATION, BUT THAT WE " WILL HAVE TO PUT UP WITH".

11. KLASSEN HOPED THE MEASURES WOULD LEAD TO RESTORE ORDER
IN THE INTERNATIONAL EXCHANGE MARKETS AND TO A CALMING
EFFECT ON THE DOLLAR. SCHMIDT ADDED THAT " NOBODY CAN SEE
WHAT THE IMPACT ON THE DOLLAR WILL BE-- WE HAVE A PSYCHO-
PATHIC SITUATION ON THE FOREIGN EXCHANGE MARKETS WHERE
PSYCHOLOGY PLAYS A MUCH GREATER ROLE THAN ECONOMIC
MECHNICS.
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NOTE BY OC/ T: BONN 9398 SEC 2 OF 2 PARA 6 (##) OMISSION.
CORRECTION TO FOLLOW.

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